

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 9, 2006**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 9, 2006, commencing at 7:03 a.m.

A. ROLL CALL

Present: Council Members – Beckman, Hansen, Johnson, Mounce, and Mayor Hitchcock
(arrived at 7:05 a.m.)

Absent: Council Members – None

Also Present: City Manager King, Deputy City Attorney Magdich, and Deputy City Clerk Perrin

B. TOPIC(S)

B-1 "Alternatives to Social Security for part-time, seasonal, and temporary employees"

Deputy City Manager Krueger reported that part-time employees are enrolled in Social Security, which is a defined benefit plan. There are long-term issues associated with the Social Security system as to whether or not there will be adequate funding available upon retirement. Staff recently received a presentation from a bank that offers an alternative plan to Social Security for part-time employees. Presently, the employer's contribution is 6.2% into Social Security. Under this alternative plan, the City could save up to the entire contribution amount.

The Internal Revenue Code allows for governmental agencies to make contributions on behalf of part-time employees into this type of plan, which is categorized as a defined contribution plan. In this type of system, the City of Lodi's only financial obligation is that it make a pre-determined contribution on behalf of the employee. Future costs and employer rates continue to increase in the Public Employees Retirement System (PERS) and Social Security; however, this plan would fix the cost to the employer.

Mr. Krueger provided examples that compared a 1.3% employer contribution savings and a 6.2% savings, explaining that the City can go as little or high, depending on how much savings it would like to generate. Agencies within San Joaquin County and the adjoining area have used this type of plan, and the savings vary (i.e. some have used the entire amount of the Social Security savings from the employer; others have not).

City Manager King added that Social Security requires a total contribution of 12.5%, which is split between the employer and employee. In this proposal, the employee's contribution would remain the same; however, the City could decide how much of the additional employer split it would assume, which is where the City would realize savings.

In response to Council Member Hansen, Mr. Krueger stated that this would apply to all part-time employees, of which there are 334 with a total payroll cost in this current fiscal year of \$1.1 million. Of that amount, the Social Security contribution is \$70,400. Under the alternative plan if the employer made a 1.3% contribution, the City would save \$52,000. Over the course of ten years, the savings would amount to \$568,000. Mr. Krueger demonstrated that the benefit to the employee would be greater net pay, as the employee contribution would be deducted before taxes. If the City chose to realize the full savings (zero contribution), it would save \$70,400 a year, or \$737,000 over the course of ten years, which could be applied toward other elements of the City's finances. In the second scenario, the employee would pay a full contribution of 7.5% and would still benefit with a higher net paycheck.

City Manager King stated that the advantage to the City is that it can choose how much of the 6.2% contribution it wishes to make. The contribution is the employee's money, unlike with Social Security where one must contribute over a specific period of time and receive money based upon a formula. When an employee separates employment, they have the option to roll it over to another qualified retirement plan or take it in a lump sum.

In response to Council Member Hansen, Mr. Krueger replied that this particular plan was not presented to the Lodi Finance/Budget Committee. Mr. Hansen expressed support for the plan, but stated that he does not want to "pull the rug" out from under current part-time employees, particularly those that have worked for the City for many years.

Mr. Krueger clarified that the requirement under Social Security is that one must work 40 quarters of credit before vesting.

Mayor Pro Tempore Johnson stated that a majority of the part-time employees are short-term or seasonal and do not typically go to work for another governmental agency, and the benefit is they vest quicker by working for the City under the Social Security system. On the other hand, there are long-term, part-time employees who would benefit from this type of plan. Mr. Johnson noted that there needs to be a balance in this plan.

City Manager King stated that, before any action is taken, staff would further analyze this, as there are three types of part-time employees: 1) those that have worked for ten years within the Social Security system that are fully vested (this would become an extra benefit); 2) those that currently work for the City who are close to vesting in Social Security; and 3) those seasonal employees at the beginning of their career, who are not concerned with retirement. This program would allow the City to set up rules and define when vesting occurred.

Council Member Hansen stated that 401-K plans have the potential to lose money, depending on how it is invested, to which Mr. King stated that the employer could establish that its contribution would be invested only in a guaranteed investment vehicle, which implies that it will have a rate of return.

Mr. Krueger outlined that Council would need to adopt a resolution and approve a trust agreement and plan document with an institution to implement and administer the plan. Staff would prepare a request for proposals and obtain qualifications from various agents. The plan document would outline the vesting, when one can retire, what happens to the money, how it can be invested, etc. There is a cost associated with administering the fund, and there are several banks that do this type of administration.

City Manager King stated that a guaranteed benefit could include certificates of deposits, items that could be insured, or some stable form of investment tool. There is competition for trust administrators, and the City has been approached by a number of companies. Each one has services it provides to the employer and the employee, and some have a wider range of investment options for the employees. The City is under no obligation to implement this plan as it currently pays into Social Security, which has been incorporated into the budget. This represents an option to reduce costs and still maintain a benefit for the employees.

Mayor Hitchcock requested that Council be provided with the makeup of the 334 part-time employees (i.e. is it mostly seasonal employees, long-time employees, etc.). Social Security was created to assist people with their retirement needs because people were not planning for their future. She expressed concern that, if the City no longer participated in that system and offered an alternative that gave people more flexibility with their money, people may not act responsibly. The guidelines on this are not the same as PERS, which restricts when money can be taken out.

Council Member Beckman supported the concept, but stated that he would like to further explore a 1.3% or 2% City contribution and a secure form of investment for the City's contribution; thereby, allowing the employee to have the option of going with a more risky investment with their contribution.

Council Member Hansen requested that staff explore the possibility of a two-tiered system so that employees hired from this point forward would be on this alternative plan, which would still generate a significant savings to the City.

Mayor Pro Tempore Johnson stated that he does not want the City to get encumbered in investment options for 334 employees and that it instead be the employee's responsibility.

PUBLIC COMMENTS:

- Cory Wadlow, Senior Accountant, clarified that federal law requires the percentage be 7.5%. Ms. Wadlow encouraged Council to ensure part-time employees receive a retirement benefit, whether it be Social Security, PERS, or some other plan, as she recalled the beginning of her career as a part-time employee with the City when she received no retirement benefit at all.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:06 a.m.

ATTEST:

Jennifer M. Perrin
Deputy City Clerk

AGENDA ITEM



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Alternatives to Social Security for part-time, seasonal, and temporary employees
MEETING DATE: May 9, 2006
PREPARED BY: Jim Krueger, Deputy City Manager

RECOMMENDED ACTION: Council receive the attached report, which outlines options to Social Security benefits for Part-time employees.

BACKGROUND INFORMATION: At the last Shirtsleeve meeting (May 2, 2006), staff presented a discussion of pension issues. On May 9, 2006 staff will present an option related to part-time employees that will result in potential immediate savings to the City.

Following is a brief discussion (a more detailed presentation is attached) of this option, which affords the City of Lodi an opportunity to save approximately \$70,000 per year and also impacts part-time employees favorably. In short, it is a win for the City and for part-time employees too. Here is the short version of the plan to convert part-time employees from Social Security to a defined contribution plan. The Social Security System is a defined benefit plan and the option that staff is proposing for part-time employees is a defined contribution plan. Recall from the earlier discussion on May 2, 2006, that a defined benefit plan prescribes an amount to be paid out to pensioners at the time of retirement and requires that employees and employers pay an amount that will allow for the prescribed (defined) payment (benefit) to the employee at the time of retirement. A defined contribution plan, on the other hand, defines the contribution amounts to be paid by the employer and employee and does not guarantee or define the benefit to be paid out at the time of retirement.

In fiscal year 2005-06, the City of Lodi employed more than 330 part-time employees at a cost of more than \$1.1 million. By law, all employers must offer pension coverage or enroll employees in Social Security. Lodi does not cover part-time employees in the California Public Employees Retirement System (PERS) or any other pension system and therefore must enroll them in Social Security. Currently the City pays 6.2 % (employer share) for this group of employees at a cost of approximately \$70,000 (which must also be matched by the employee) to Social Security. There is an alternative to the Social Security System, which affords the City an opportunity to save the employer's contribution to the Social Security System and a higher net pay check to part-time employees as well. Aside from the apparent lack of long term financial viability of the Social Security system, the City and the employee would have savings if an alternate defined contribution would be used in its place. Due to the tax benefits to employees of a pretax pension contribution (as opposed to Social Security, which is a post tax payment) the employee's net pay would increase and the City would save the \$70,000 employer contribution.

APPROVED: 
Blair King, City Manager

Staff desires to pursue this cost savings tool and will bring the necessary documents required to implement the defined contribution system and for hiring a trustee to administer the plan at a regular City Council meeting in the near future.

Part-time employees are not covered under any bargaining agreement and, as such, there is no requirement to meet and confer with these employees in order to implement this change.

FISCAL IMPACT: Possible savings of approximately \$70, 000 per year.

FUNDING AVAILABLE: Not applicable



Jim Krueger, Deputy City Manager

Attachment



Alternative Pension System For Part-Time Employees

Presented May 9, 2006

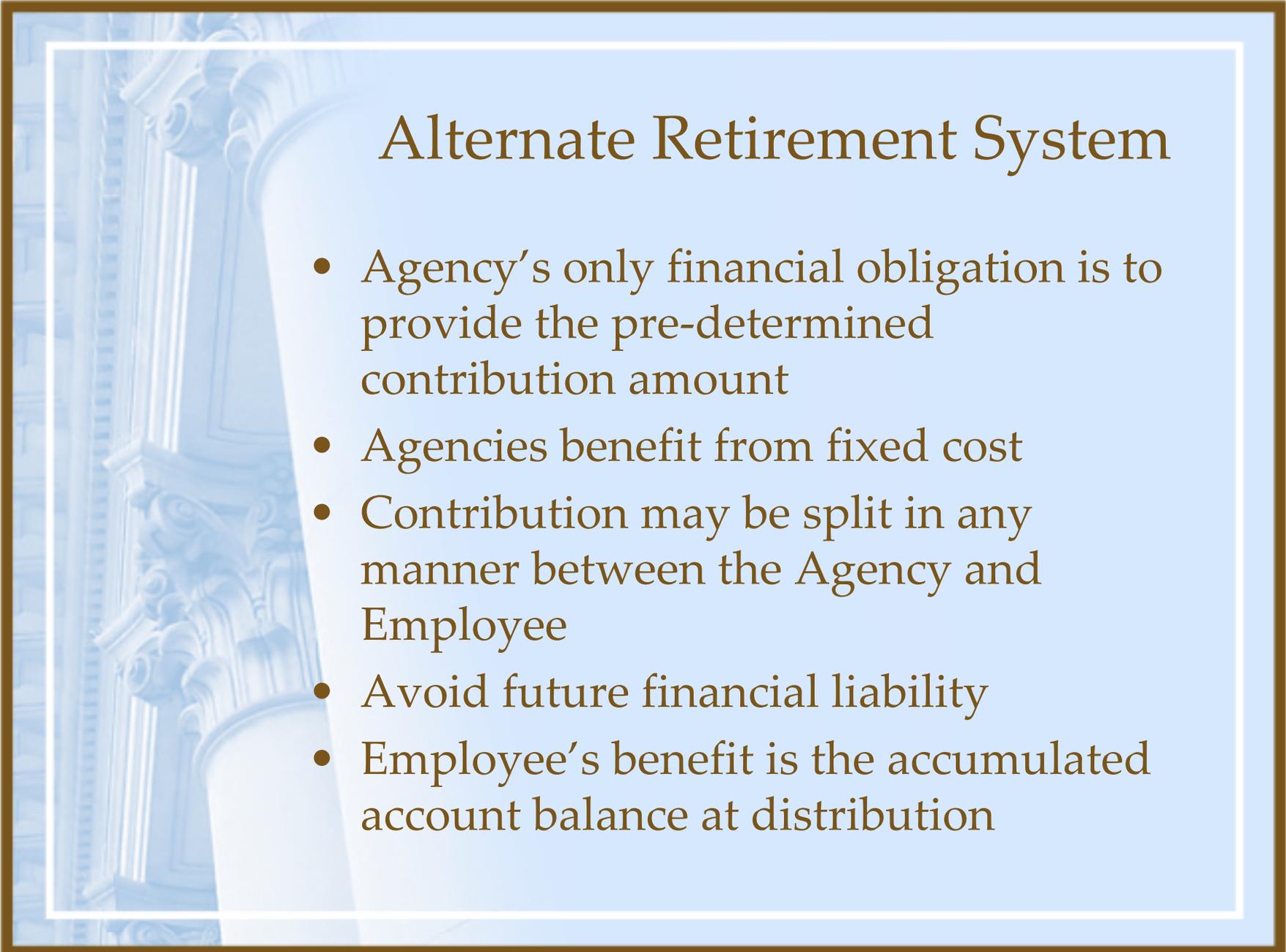
Fiduciary Issues

- District may appoint the Trustee as investment manager and “Discretionary Trustee”, and thereby pass fiduciary responsibility for investments to the Trustee
 - OR
- District may elect to select their own investments and establish a “Directed Trustee” arrangement and retain fiduciary responsibility for investments
- Trustee must act pursuant to Government Code Section 53216.6
 - Exclusive benefit of employees
 - Prudent person standard



Alternate Retirement System

- Alternative to Social Security for Part-Time, Seasonal, and Temporary Employees (PST)
- Meets OBRA '90 Requirements
- Complies with ICR 3121(b)(7)(F) requirements
- 457 defined contribution plan
- Reduces cost to Agency due to lower total contribution rate

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Alternate Retirement System

- Agency's only financial obligation is to provide the pre-determined contribution amount
- Agencies benefit from fixed cost
- Contribution may be split in any manner between the Agency and Employee
- Avoid future financial liability
- Employee's benefit is the accumulated account balance at distribution

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Alternate Retirement System

SCENARIO # 1

CONTRIBUTION SPLIT

Employer = 1.30%

Employer = 6.20%

Benefits to the Agency

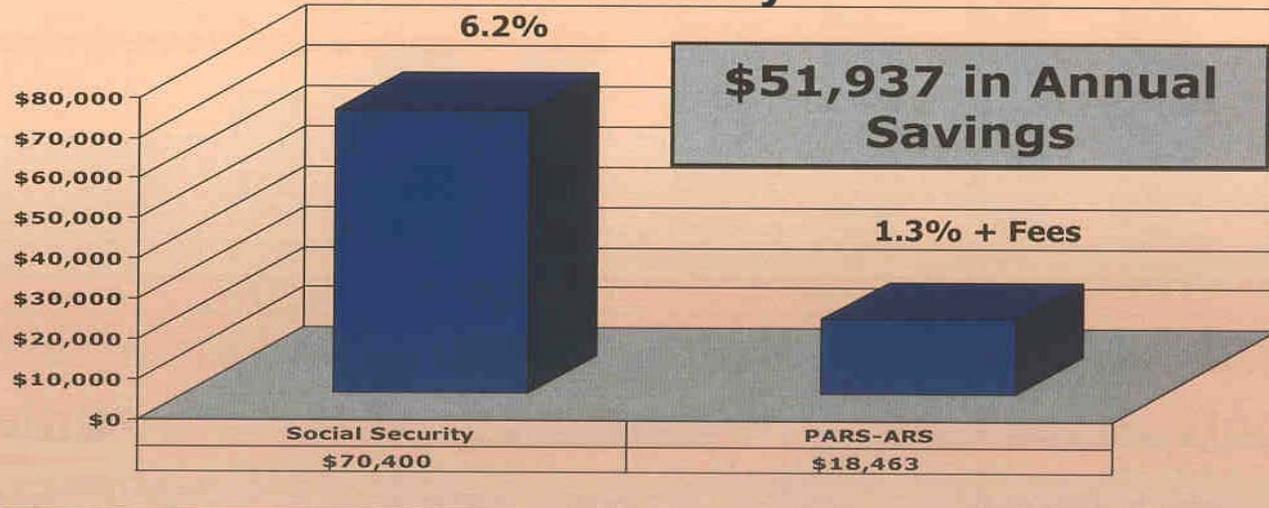
Assumptions

334 PST employees
\$1,135,484 Annual Payroll
Expenses paid by the Agency

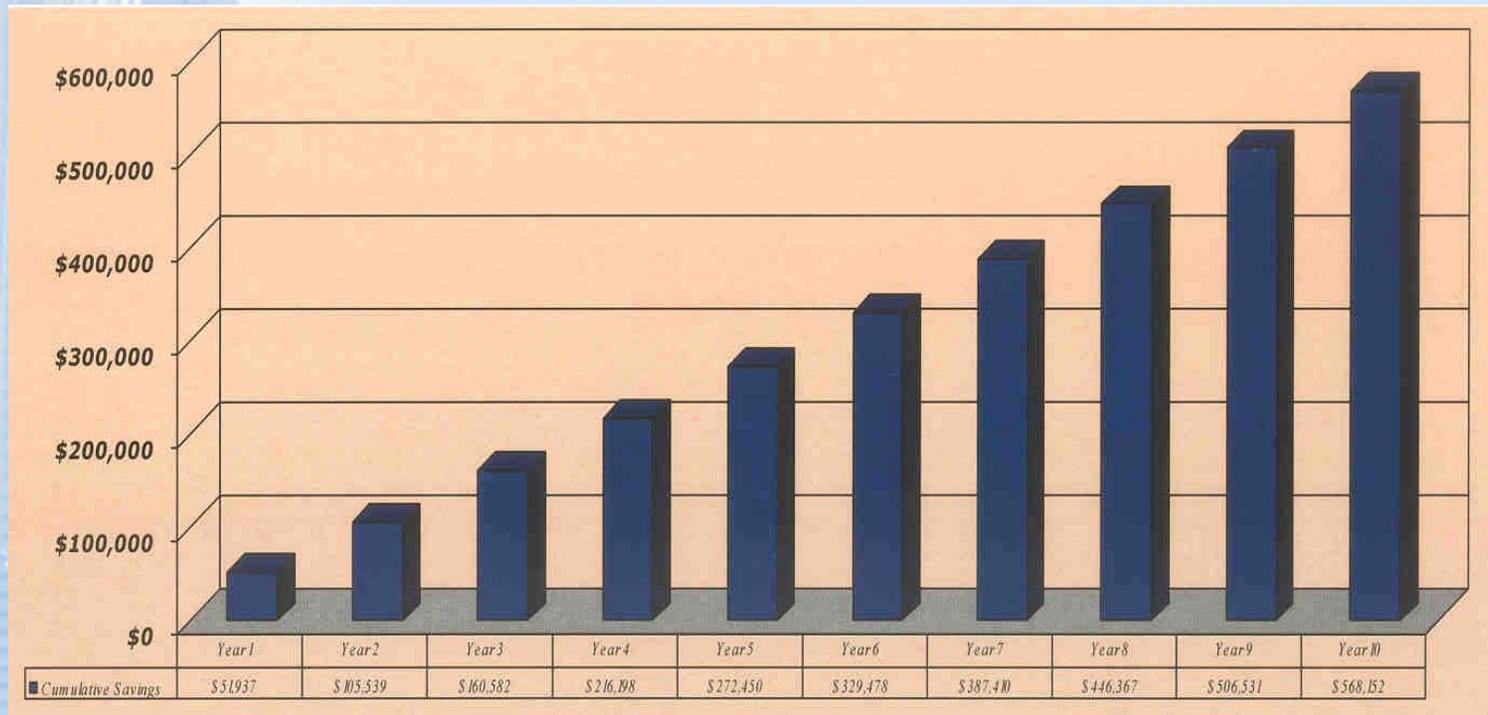
Contribution Split

EE Contribution: 6.20%
ER Contribution: 1.30%

First Years ARS Savings to Employer over Social Security



Cumulative Savings Over Social Security



1 Year Savings

\$51,937

5 Year Savings

\$272,450

10 Year Savings

\$568,152

Benefits to the Employees

Assumptions:

EE Contributions: 6.20%

ER Contribution: 1.30%

Comparison of ARS and Social Security

	<u>ARS</u>	<u>SOCIAL SECURITY</u>
GROSS ANNUAL INCOME	\$3,137	\$3,137
LESS ARS @ 6.20%	(\$194)	
TAXABLE INCOME	\$2,943	\$3,137
LESS TAXES @ 20%	(\$589)	(\$627)
LESS SOCIAL SECURITY @ 6.20%	_____	<u>(\$194)</u>
NET INCOME	\$2,354	\$2,316
ADDITIONAL TAKE-HOME PAY	\$38	

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Alternate Retirement System

SCENARIO #2

CONTRIBUTION SPLIT

Employer = 0.00%

Employee = 7.50%

Benefits to the Agency

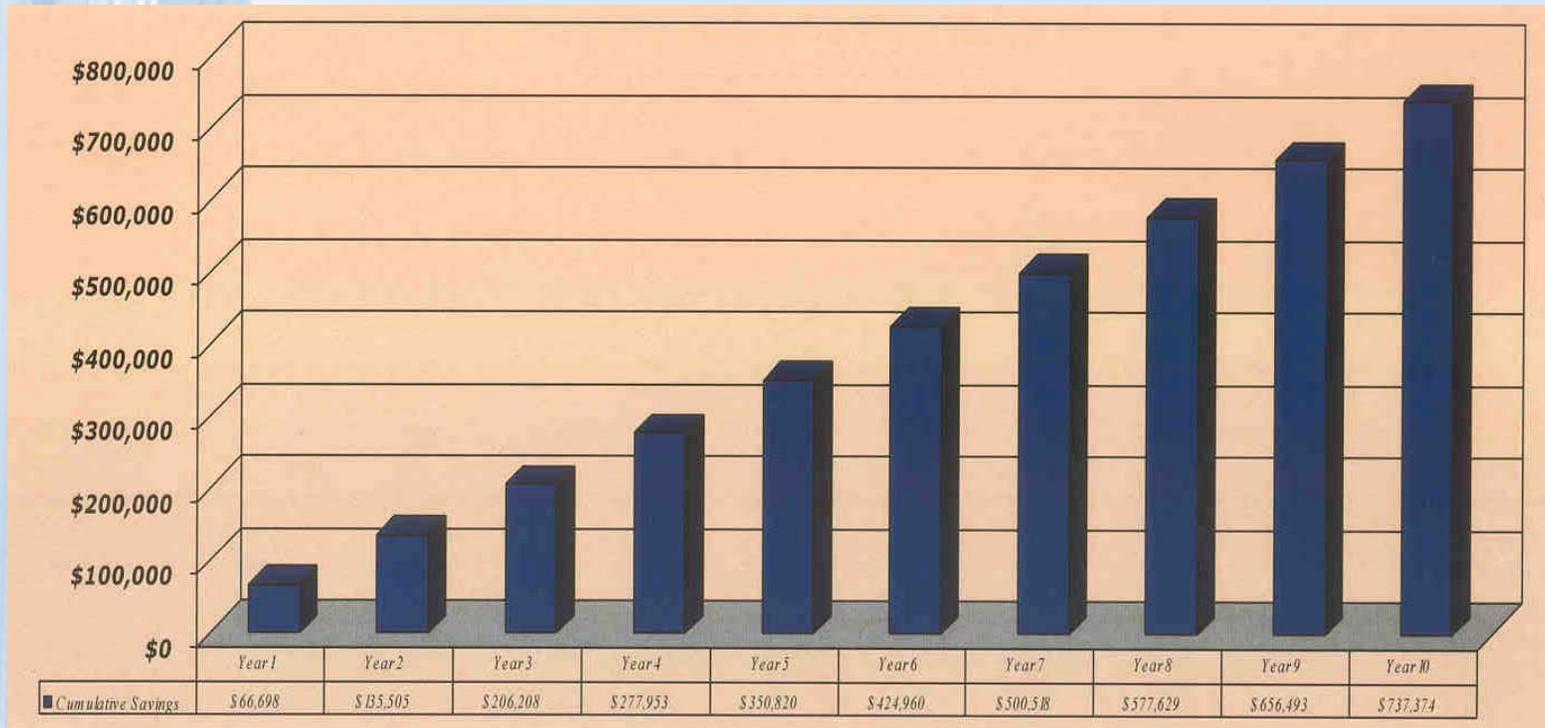
Assumptions

334 PST employees
\$1,135,484 Annual
Payroll
Expenses paid by the
Agency

Contribution Split

EE Contribution:
7.50%
ER Contribution:
0.00%

Cumulative Savings Over Social Security



1 year Savings

\$66,698

5 Year Savings

\$350,820

10 Year Savings

\$737,374

Benefits to the Employee

Assumptions:

EE Contribution: 7.50%

ER Contribution: 0.00%

Comparison of ARS and Social Security

	<u>ARS</u>	<u>SOCIAL SECURITY</u>
GROSS ANNUAL INCOME	\$3,400	\$3,400
LESS ARS @ 6.20%	(\$255)	
TAXABLE INCOME	\$3,145	\$3,400
LESS TAXES @ 20%	(\$629)	(\$680)
LESS SOCIAL SECURITY @ 6.20%	_____	(\$211)
NET INCOME	\$2,516	\$2,509
ADDITIONAL TAKE-HOME PAY	\$7	

Benefits to the Employee

	ARS	Social Security
Vesting	100% immediate vesting (ownership)	40 Credits
Contributions	Deducted pre-tax	Deducted after-tax
Benefit Limit	Contributions increase account balance without limit	Once limit is met, additional contributions do not result in higher benefits

Benefits to the Employee

- Immediate eligibility for lump-sum distribution at:
 - Retirement
 - Termination
 - Permanent Disability
 - Death
- If an employee goes from part-time, they are eligible for a lump sum distribution if:
 - There are 2 years of zero contributions into the plan and
 - The account balance is less than \$5,000 and
 - There has been non previous in-service distribution
- Distribution flexibility
 - Lump-sum cash pay out
 - IRA or other qualified plan rollovers
 - Purchase of PERS/37 ACT service credit (if eligible)

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Benefits to the Employee

- Expedient monthly distributions
- Toll-free customer service line (24-hour voicemail)
- Plan communication materials
- Annual statements



Plan Implementation

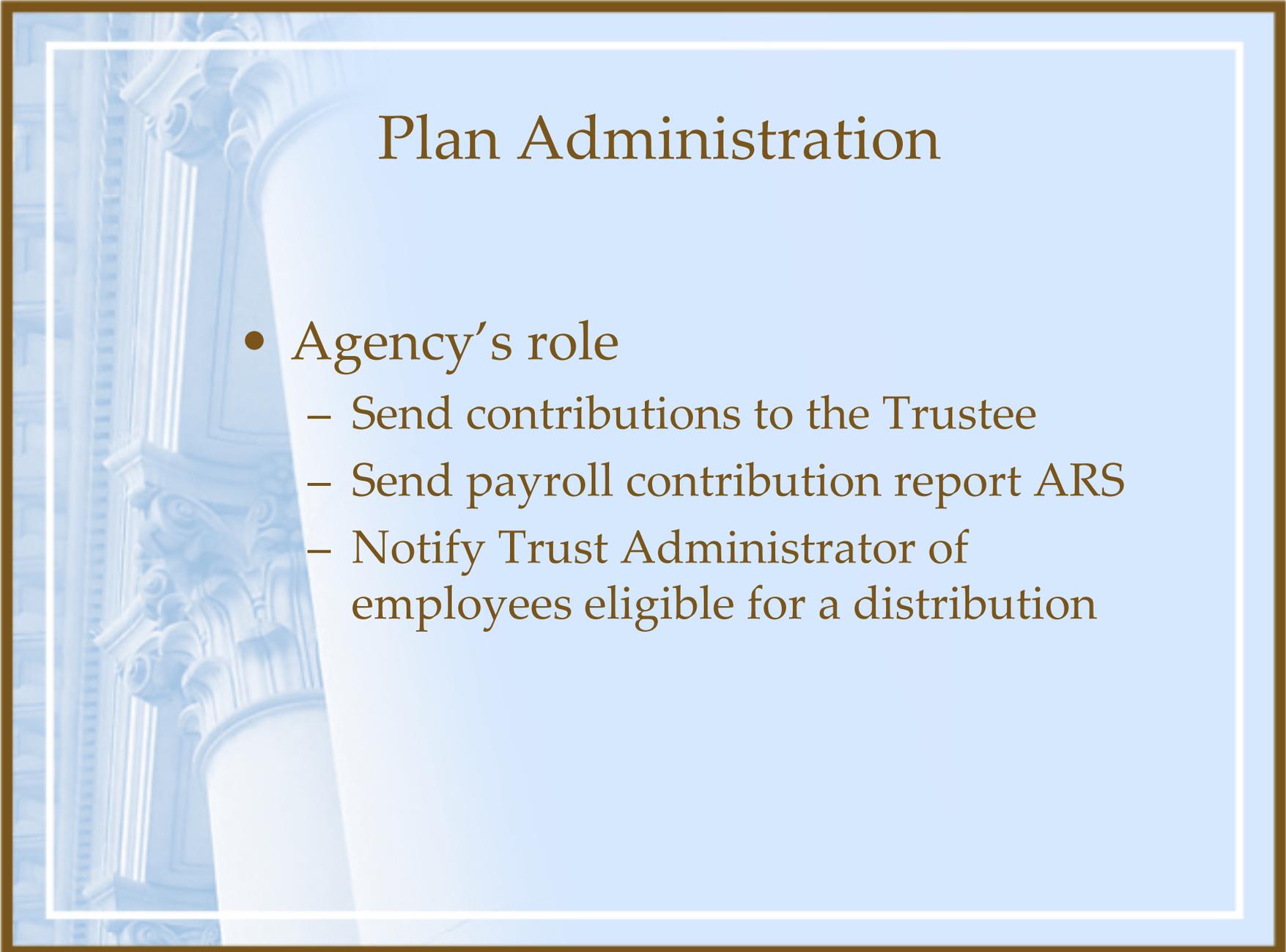
- “Signature-Ready” documents
 - Resolution
 - Trust agreement
 - Adoption agreement to the Trust
 - Plan document
 - Administrative services agreement

Plan Implementation

- Initial plan set-up
 - Prepares sample Board/Council agenda report
 - Conducts meetings with payroll, personnel and other Agency staff members
 - Holds group orientation meeting(s) with plan participants
 - Provides plan communication materials for participants
 - Assists in conducting employee elections
 - Provides access to experienced ARS support staff

Plan Administration

- ARS provides ongoing “turn-key” administration
 - Agency/Participant inquiries
 - Account valuations, statements and reports
 - All required state and federal governmental reporting
 - Expedient monthly distribution direction
 - Orientation meetings(s) with plan participants and Agency administrators as necessary
 - Periodic “Administrator’s Update” Newsletter

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Plan Administration

- Agency's role
 - Send contributions to the Trustee
 - Send payroll contribution report ARS
 - Notify Trust Administrator of employees eligible for a distribution

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Implementation Steps

1. Governing body passes Resolution adopting the plan
2. Plan documents are executed
3. Meeting held with payroll, personnel and other staff members involved with the plan
4. Orientation meeting conducted for new plan participants
5. Payroll system adjusted, personnel procedures set up
6. First payroll contribution and data submitted